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INFORMATION

March 27, 1971

MEMORANDUM FOR: THE PRESIDENT

FROM:

HENRY A. KISSINGER (Signed) HK

SUBJECT:

International Oil Situation -- Libyan Phase

Negotiations between the major oil companies and the oil ministers of the Mediterranean oil countries have reached a difficult period.

Libya, which represents the Mediterranean countries, has demanded:

- a substantial increase in the posted price of oil, on which taxes are based;
- that the companies reinvest a portion of their profits in the producing countries;
- and a bonus payment to the Mediterranean countries due to the savings realized by the companies because of the lower transportation costs for oil from Mediterranean, as opposed to Persian Gulf, terminals to Europe.

The oil companies are worried that Iraq and Algeria will support the Libyan price demands by participating in an oil embargo, should the companies reject Libya's proposals. They fear also that Libya and Algeria are determined to force a price settlement in the Mediterranean high enough above that recently reached between the companies and Persian Gulf producers in Tehran to cause the Persian Gulf countries to repudiate the Tehran agreement and ask for further increases in payments from the oil companies. (The Shah has said he would not do this but if the Mediterranean settlement is too high, domestic pressures may force him to do so.) The companies are concerned that if the Mediterranean companies do embargo oil the resulting oil shortage would be so intolerable to governments of consuming countries that they would then force the oil companies to accede to Libyan demands.

The companies are now considering their next moves. They have been told informally that they must meet Libya's demands by midnight on March 18 -- (or else). However, Libya has so far avoided a major confrontation and can continue to do so in the present situation if she so wishes.